



The Impact of Covid-19 Pandemic on Startups in India

Mr. Ujjwal Dingliwal

Student, Bachelor of Management Studies (BMS),
Ram Lal Anand College, University of Delhi, India
Email: ujjwaldingliwal@gmail.com

&

Dr. Suneyana Sharma

Assistant Professor, Department of Economics,
Ram Lal Anand College, University of Delhi, India,
Email: suneyana.sharma@gmail.com

Abstract: Indian economy is among the fastest expanding worldwide. Today, Startups are redefining are the latest contributing factor to the nation's growth. Through innovation, invention and initiation, startups are acting as an engine for employment generation, creation of wealth, better living standards and overall development.

The unanticipated Covid-19 pandemic left the world in shambles, affecting almost all the sectors. The startup ecosphere was no different, largely impacted by the economic stagnation the pandemic brought along. By analyzing the startups before, during and towards the end of the pandemic, the paper will try to understand and summarize how the sector stands as an aftermath of the pandemic and what is in store for the future of the Indian Economy.

Keywords: Startups, India, Entrepreneurship, Indian Economy, COVID-19, Pandemic

1. Introduction

In today's dynamic and ever-growing world, where things are changing every day and new developments are happening in each and every sector of the world economy, startups have become the engine of economic growth and development.

Especially in countries like India that are still on their journey in changing their status from a developing to a developed nation, the sole means to boost economic growth is via entrepreneurship. A minor venture idea with potential and diligence can be developed into a substantial innovative answer that alters the future of developing nations.

Since past few decades, More and more innovative and creative businesses are expanding, with a great deal of potential to alter the global economy. It is often countries like India with the highest needs that bring the biggest opportunities. This is where startups come in.

1.1 Startups

To define a startup, a number of things must be considered, but innovation is one of the most important aspects of a startup. According to this particular passage from Van de Ven, innovation is described as



follows: “An innovation is a new concept, which may be a recombination of existing ideas, a plan that challenges the status quo, a formula, or a particular technique that is viewed as novel by those involved” (Van de Ven, 1986; Zaltman et al., 1973; Rogers, 1983). Even while it may seem to common folk to be an “imitation of something that already exists”, the concept is an “innovation” as long as the stakeholders involved see it as novel. Thus, a startup is defined as “*A firm that has been founded less than ten years ago, which has to some extent a technological base, and approaches innovation according to the logic.*”

1.2 Economics & Innovation

Austrian political economist Joseph Alois Schumpeter, in his classic critique of capitalist society *Theory of Economic Development* (1934), argued that when left alone by “social and other meddlers,” economics is a natural self-regulating process. He contends that despite their flaws, theories are grounded in logic and give information a framework to be understood. He shows that “there are underlying laws in the phenomena of money, credit, and entrepreneurial profit that provide support to his prior ideas of interest and the economic cycle”. Schumpeter identified the significance of innovation and economic cycles and characterized “entrepreneurs” as economic actors who spin the wheel of economic growth and development. As an early supporter of entrepreneurial profit, he contends that recessionary times and economic booms are inevitable in a developing economy and cannot be eliminated or fixed without preventing the innovation-based creation of new wealth, which prompts “Creative Destruction” i.e., the process of new businesses replacing the old. His theory highlights the importance of evolutionary growth and innovation for Startups, particularly during the times of crisis.

1.3 Entrepreneurs and Entrepreneurship

Schumpeter explicitly emphasizes on the role of entrepreneurs in *Socialism, Capitalism and Democracy* (1942). He accentuates that “the function of entrepreneurs is to reform or revolutionize the pattern of production with a focus on new combinations” (Schumpeter, 1934). There is essentially little debate over the idea that these entrepreneurs' creative startups play a significant role in boosting growth and national competitiveness. (Jha, 2020)

Researchers have defined how an entrepreneur is different from a managerial bureaucrat. According to German sociologist Max Weber, “an entrepreneur is the only type who has been able to maintain at least relative immunity from subjection to the control of rational bureaucratic knowledge” (Weber, 1978). Venkataraman describes the concept of entrepreneurship as “the study of sources of possibilities; the processes of discovery, evaluation, and exploitation of opportunities; and the collection of individuals discover, evaluate, and exploit them.” (Venkataraman & Shane, 2000). These entrepreneurs lay the foundation of new firms and innovative businesses with aspirational growth objectives and ambitions, which are called *startups*.

1.4 Startups and the Indian Economy

A healthy startup ecosystem leads to progress of any country, and there is a global drive to trigger the growth of nations through innovations and creativity. The startup ecosystem in India contributes enormously to the economic prosperity and growth.

The role of startups is not only limited to job creation and capital formation, they also contribute towards the better standard of living by providing quality products and services. Government with its efforts to nurture startup incubation in the country in the form of incentivized investments, tax relaxations and ease of business doing compliances is constantly trying to create an ecosystem for Startups to nurture and boost the national economy and its position in the comprehensive international standing.



India presently is globally the fastest-growing & the third largest startup ecosystem. The government has also taken a number of actions in recent years to aid entrepreneurs, including extending the definition of startups, streamlining rules, granting income tax exemptions, and establishing a Rs 10,000 crore Fund of Funds for entrepreneurs, among other things. The government also launched “Startup India” initiative that was envisioned to shape a robust ecosystem for fostering entrepreneurship and innovation across the nation.

1.5 Arrival of the Covid 19 crisis

The infectious virus, which emerged in China in late 2019, has spread to nearly every country in the world since the pandemic's onset. As of 30 January 2023, there were 753,001,888 confirmed infections of Covid-19, with 6,807,572 deaths, reported to WHO worldwide. Even though at the same time, a grand total of 13,156,047,747 vaccination doses have been administered as of January 23, 2023 (WHO, 2023).

The world saw desolate times with the arrival of the pandemic. In most countries hospitals were overburdened with lack of protective medical gear and essential health supplies. Experts predicted that this epidemic might spread in waves, affecting different communities and countries all over the world, which proved to be true as we continue to witness it.

A world which forever buzzed with activities had fallen silent and all of the resources at one point were being used to deal with the unprecedented crisis. Covid-19 started as a health crisis but soon it also gave a huge blow to the world economy, and evidently startups could not escape its clutches either.

1.6 Research Objective

The primary objective of the research study is to examine the impact of Covid-19 pandemic on startups in India.

This paper aims to understand and analyse how the global contagion of Coronavirus affected the Startup ecosystem in India and demonstrate how & why startups either succumbed to the changes, or accepted them as an opportunity to flourish. The paper endeavors to shed light on why certain startups were affected more than others and whether the pandemic acted as a hindrance or a catalyst for growth in the Startup industry. By conducting an in-depth analysis, the study will provide valuable information for entrepreneurs, policymakers, as well as other participants in the ecosystem of startups, along with commenting on what the future holds for the sector and what the sector holds in store for the Indian economy.

2. Review of Literature

An extensive analysis of the literature highlights the studies conducted to understand how worldwide economic slowdown has affected businesses across all industries. Discussions have widely been made about how the economy as a whole has suffered and what can be done to uplift it comprehensively, but the potential role startups can play, especially in a developing economy like India with the largest human capital globally, has not been explored in depth.

Chandraprabha Jha (2020) calls startups as one of the primary drivers of creative destruction, especially during economic downturns. The research commented at how a crisis sparks creative destruction, how firms were affected during COVID-19 and the immediate practices needed at the time to combat the crisis. However, questions about what the future held for startups and their impact on the Indian economy based on latest market trends were left unanswered.

OECD report (2020) further explored the situation of startups in its member countries at the time of



COVID-19. The report commented on the challenges brought about by the pandemic and gave key recommendations to “tackle short-term challenges, reduce barriers to entrepreneurship and providing the right incentives.” The report however failed to comment upon the same efforts need to combat the crisis at a global level, leaving out many developing nations which supposedly are the hub of innovations.

Sreenivasan A. et al (2020) underlined the importance of resilience for Startups to understand in order to survive the pandemic situation. A startup's capacity to handle impending instability and potential disruptions, with factors like “dynamic capabilities, workforce diversity, effective communication with stakeholders and sustainable resilience practice” can do wonders in times of crisis but overall market trends if become unfavorable, then even resilient startups succumb. Through a survey of over 5,800 startup businesses, Bartik et al. (2020) discovered the influence of COVID-19 on small firms, exposing issues of mass layoffs, closures, financial vulnerability, lack of liquidity, and desire for fiscal government help throughout the epidemic. Results were as expected, negative due to uncertainty about the length of lockdowns, financial difficulties, bureaucratic hassles and more, all revealing termination of startup ventures as an inability to face the unexpected crisis.

Varma & Dutta (2022) commented on how post-lockdowns small organizations and startups have started to reopen, but they are still having a lot of problems, mostly because of changing customer preferences and the need to modify business models. They identify key areas that startups should concentrate on as they navigate the COVID-19 epidemic, suggesting focus on ensuring employee & customers' safety, optimization of costs and enabling internet presence and door-to-door services. However, the pertinence of these is in question as they vary as per a startup's industry, workforce strength, maturity, and geographical setting within a diverse ecosystem like India. Nonetheless, the study acts as a yardstick measure that can help Startups benefit in the current environment.

2.1 Research Gap

Few researches have been done to determine how pandemics like COVID-19 affect Startups and how they might overcome the particular difficulties that a pandemic brings. Even when the effects of the Pandemic continue to subside every day, not many studies have explored the lasting after-effects it is potentially going to leave on the startup environment around the globe. This paper thus, will dive deeper into these questions left unanswered in the referenced previous studies and comment on how the potential of the sector needs to be leveraged for rapid growth of the Indian economy in coming years.

3. Data Methodology

3.1 Research Statement- The statement under question is “The Impact of Covid-19 Pandemic on Startups in India”. The paper uses theoretical study along with supporting data from numerous published sources to research upon the question, find suitable insights and comment upon the future.

3.2 Data Type Used- The research largely is based upon secondary data, involving careful analysis of to generate new insights from the pre-available data. This data has been collected from various trusted sources including reports from the government, private & international organisations, news articles & past researches.

3.3 Population- Research population considered is the Startup Sector of the Indian economy, with appropriate references of various startups.

4. Result and Discussion



The following segment will try to analyse the topic by forming a timeline of the pandemic. Firstly, the *Pre-Pandemic Era* is discussed, covering the time before the pandemic, and analysing how startups functioned then. This is followed by the time *During the Pandemic*, dealing with the unexpected arrival of the Covid-19 & examining the impact pandemic had on the startup sector and how startups dealt with these unanticipated circumstances. Next, we move to the *Post-Covid Era*, where we discuss the recovery of the sector i.e., how startups acted and continue to do so when the country is almost out of the clutches of the epidemic, along with making some future forecasts, and comments. Finally, we arrive at *Current Trends & Forecast* showcasing what the current global economic scenario looks like and what it holds in store for startups and the economy in near future.

4.1 The Pre-Pandemic Era

4.1.1 The Startup India Campaign

Even though startups existed in the country prior, the Age of Entrepreneurship was officially brought about in the country through the *Startup India Campaign* by the Government of India.

On 15 August 2015, a new vision for the Indian economy was announced during Prime Minister Narendra Modi's Independence Day speech from the Red Fort. A dream that “enabled the talent of India to dream of ideas, put them in action, and alter them into game changing endeavors.” To turn words into action, the government started the "Startup India" campaign on January 16, 2016, with the goal of creating a strong environment for fostering innovation and businesses in the state that would promote large-scale employment opportunities and engage in sustainable economic growth.

After PM Modi launched the Startup India initiative, an “*Action Plan*” comprising of 19 “action points”, fixating on important areas like “simplification & handholding”, “funding support and incentives”, and “industry-academia partnerships and incubation” for startups was outlined. DPIIT, i.e., The Department for Promotion of Industry & Internal Trade has been vigorously taking the necessary measures to promote entrepreneurship and encourage innovation.

Table 1: Startup India in Numbers (Jan 2016 – Dec 2022) *

| | 2016-2020 | 2021-2022 |
|--|-------------------------------------|-------------------------------------|
| Startups recognized by DPIIT | 41,317 | 59,593 |
| Districts with atleast one recognized startup | 590+ | 633+ |
| Job generation reported | 4.7 lacs by 39,000+ startups | 6.4 lacs by 57000+ startups |
| % of recognized startups with 1 woman director | 44% | 46% |
| Investment made through the Fund of Funds Scheme | Rs. 4,509 Crores in 384 startups | Rs. 7,381 Crores in 517 startups |
| States & UTs with dedicated startup policy | 30 | 30 |
| Startups granted Tax exemption under Act 80-IAC | 319 | 406 |
| Regulatory reforms enabled with various Ministries | 39 | 49 |
| Regulatory reforms undertaken by States & UTs | 37+ | 52+ |

*Source: *Evolution of Startup India, 5 Year Report, DPIIT Govt. of India Reports*

As of December 2022, there were over 59,593 there are more than 633 districts with startups recognised under the Startup India Initiative, including all 28 States and 8 UTs. These startups generated more than 6.4 lac employment opportunities and 46% of them had atleast one female director. For the purpose of sponsoring the aforementioned Startups at the development stage, a Fund of Funds of INR 10,000 Crore has been established. This was the support to the new trendsetters and risk-takers of the sector in their track in the direction of the formation of a new India. The Government of India has by now dedicated INR 7,381 Crores to 517 startups through the Fund of Funds. These



government-contributed funds have made it possible Venture Capital funds to amass a collective funding of more than INR 10,000 Crore which is now accessible to Startups. When the fund-raising efforts for these committed funds are finished, Startups will have access to a total of more than INR 13,888 Crore. This government contribution has sparked an 8x increase in startup investment.

4.1.2 The Rise of Startups

This campaign laid the basis for the growth of tinkering with potential business ideas and the sector soon picked up the pace of development and aimed to establish India as one of the largest and most robust startup ecosystems of the global level, the Startup India programme took numerous strategic measures to create a robust, supportive, and growth-oriented environment for entrepreneurs and so help the country create thousands of job opportunities.

Before the pandemic, the rise of startups was an extraordinary growth story, especially for a nation that, until recently, had only four states with clear startup regulations and was ranked lower than 100 on the UN index of the ease of doing business.

Table 2: India - Rank at UN Ease of Doing Business Index (Out of ~190 countries) *

| Year | Overall Rank |
|------|--------------|
| 2013 | 132 |
| 2014 | 134 |
| 2015 | 142 |
| 2016 | 130 |
| 2017 | 130 |
| 2018 | 100 |
| 2019 | 77 |
| 2020 | 63 |

*Source: *Doing Business Reports (2013-2020)*, World Bank Group

After the launch of the campaign, within a few years the country's global performance at the UN Ease of Doing Business Index has improved tremendously as seen in Table 2, which may reflect the benefits the campaign had on the incubation of startups in the country.

Numerous startups whose foundations were laid before the pandemic today are Unicorns with multi-billion-dollar valuation. Given below are some of the highest valued startups of the country founded before the pandemic along with their current market valuation.

Table 3: Highest valued Indian startups founded before the pandemic (as of May 2022) *

| Startup | Sector | Founded In | Became Unicorn In | Current Valuation |
|--------------|--------------------|------------|-------------------|-------------------|
| Flipkart | E-Commerce | 2007 | 2012 | \$37.6 billion |
| Byju's | EdTech | 2011 | 2018 | \$22 Billion |
| Swiggy | FoodTech | 2014 | 2018 | \$10 Billion |
| Nykaa | Cosmetics & Beauty | 2012 | 2020 | \$9.7 Billion |
| Dream11 | Fantasy Sports | 2008 | 2019 | \$8 Billion |
| OYO | Hospitality | 2013 | 2018 | \$8 Billion |
| Razorpay | Payments | 2014 | 2020 | \$7.5 Billion |
| Postman | Software | 2012 | 2020 | \$5.6 Billion |
| Zomato | FoodTech | 2010 | 2015 | \$5.4 Billion |
| Ola | Ride Hailing | 2010 | 2015 | \$5 Billion |
| BrowserStack | Software Testing | 2011 | 2021 | \$4 Billion |
| FreshWorks | Software Solutions | 2010 | 2018 | \$3.5 Billion |

*Source: *businessinsider.in*



The above data reflects to some extent that the time period before 2015 was the golden period for laying the foundation of startups that went on to become immensely successful today.

India's startup network is not a recent marvel. In recent times, however, the ecosystem has gathered increased attention, not only because of the huge number of entrepreneurial initiatives, but also given its strong success rate. With nearly billions of capital inflows and millions of people involved, India today stands amongst the top five in the world. However, the question in our minds should be whether this rapid growth is sustainable; What India needs to do to fully unlock the potential of startups, and how to overcome the unexpected challenges that come its way.

4.2 During the Pandemic

Startups are more recent formations and are smaller than well-established businesses. Plenty of evidence suggests these firms are more vulnerable to failures (Freeman et al., 1983; Stinchcombe, 1965). Due to their small size, businesses are more vulnerable to both internal and external shocks, such as financial difficulties, the loss of key employees, troubles in entering a new market, financial crisis, or a pandemic like COVID-19. (Eggers, 2020; Freeman et al., 1983).

Before the coronavirus pandemic hit India in March, the startup ecosystem in that nation was described as "thriving," "booming." Up to January 1, 2020, the nation had more than 25 unicorns, and businesses in India had garnered \$14.5 billion in financing. But after that, the pandemic struck and 2020 became a *Black Swan* event, the first in the 21st century.

The term "Black Swan" refers to "an unpredictable event that is beyond what is normally expected" and has a significant impact which is exactly what the Covid-19 pandemic proved itself to be. The theory emphasizes the importance of considering low-probability, high-impact events when making economic forecasts or investments. The unexpected pandemic brought global economies to a halt, and IMF declared a recession atleast as bad as, if not worse than that of 2009. Consequently, world economy grew at negative 3.3% in 2020. The outbreak impacted countries in an enormous way, bringing social and economic life to a standstill.

4.2.1 Some of the major challenges startups in India encounter include-

A. Leadership Challenges-

Making Decisions and Negotiating Virtually

One of the major problems faced by startups leaders was taking decisions online and negotiating virtually. In business transactions, customers desire to put off making a decision and want to physically meet to conduct business, whenever this option is available. While it is challenging to trust people online, dealing virtually with long-time customers is much simpler than doing so with prospective new customers. Findings highlight how a pandemic-induced physical meeting restriction might have a significant negative impact on the business since it depends on certain specific information (Jha, 2020).

Managing Teams Remotely

Another challenge for startups was to manage & motivate teams online. The reliance and dependency needed on the leadership was also raised by remote management. The workload of senior managers has dramatically increased, according to several startups, as they are required to spend more time engaging with and checking in with their staff. Also, compared to larger companies, startups have fewer clearly defined procedures & routines. Given the circumstances, it had become more urgent to address the lack clarity regarding roles.

Problems with New Recruits and Interns

The dilemma of how to introduce new hires meaningfully and digitally to the business arose with the



hiring of new staff. The largest issue facing startups is how to expose the new recruits to the organisational culture, have faith in their abilities, and give them the extensive care and direction they need during their initial induction.

B. Challenges affecting Business Process & Finances- Financial Challenges

Since the impact of COVID-19 was felt in almost all the sectors of the economy, startups found it difficult to recover payments from their customers. Customers were now asking for other payment arrangements, such as reductions or payments that differed from what had been originally agreed upon. All of this led to the short-term cash flow problems that companies experienced. Since COVID-19, it was discovered that 92% of tech startups are experiencing revenue declines (NASSCOM, 2020).

Supply-Chain, Mobility and Logistical Interruptions

For the startups that were high-tech software-based businesses, supply chain disruptions were not a problem. But these comprised only a fraction of the entire startup industry. These challenges were extensively reported in startups that dealt with tangible products and also e-commerce. The Indian e-commerce sector came to standstill for a time when lockdowns restricted all mobility, no one could deliver products from one region to another. Companies halted operations and many were wound-up as well.

Reduced and Restricted Scalability

Lockdowns caused a decline in sales for businesses, and Businesses that couldn't cut back on operating costs saw their cash flow fall. Innovation was also endangered and stagnated by the epidemic since it made it challenging for new businesses to obtain financing and funding. Though startups have some disadvantages for being smaller in size, their lack of bureaucracy and hierarchy, along with their small size, can be advantageous. The financial crisis of 2008 produced its own disruptive side effects but during that time ventures like UBER and Airbnb shot up in popularity in the west as crisis forced people to share assets in form of car rides and spare rooms to cover for the deficit. COVID-19 was no different, Numerous founders quickly grasped that in order to survive and prosper, they would also have to change with the dynamics of the changing world.

4.2.2 The Story of Transformation - Innovative Startups Pivoting Their Business Models

A calamity is a awful thing to waste. When presented with opportunities for improvement, instead of simply trying to restore the status quo, good leaders take advantage of the disruption to implement long-needed changes, using the momentum generated by a crisis to drive progress and create a better future.

Customers' changing requirements and behaviour have given companies in India new chances. Startups are adapting their business models to meet the evolving requirements and behaviour of their customers, they have tapped into new market segments, and this crisis has given us the chance to focus on creating more resilient organisations going forward.

4.2.3 Some sectors that Evolved and Grew

Due to the pandemic, customer behaviour in the mobility domain changed drastically in a tiny span of a few days due to complete lockdowns and mobility restrictions. Yulu, a provider of mobility services, was primarily used by daily office commuters but with lockdowns came a decrease in usage. Yulu saw this as an opportunity and formed a partnership with essential service providers, supplying them with their workforce and vehicles. This pivot allowed Yulu to change their business model and value proposition, build trust with the public, and enter a new market space with emerging opportunities.



In another sector, groceries became one of the most popular commodities in the list of essential items. The demand was so high that it forced online grocery delivery platforms (such as BigBasket and Grofers) to delay orders by several days due to shortage of stock or delivery executives. Startups like Swiggy and Zomato saw this opportunity and successfully expanded into grocery delivery services. Another industry that flourished was Edtech. According to the results of a report by BARC India and Nielsen, Since the lockdown, time spent on educational apps on smartphones has increased by 30%. During the pandemic, BYJU's, an Indian ed-tech unicorn used an aggressive acquisition strategy to grow to become the industry's largest player worldwide. In reaction to Covid-19 forcing closure of schools, BYJU's offered all of their content on their app free, which resulted in the pandemic helping the business become a decacorn with a valuation north of \$10 Billion. As of 2023, BYJU's stood with a market valuation of \$22 Billion. These growth patterns were visible across the industry, reflecting how the sector emerged as one of the winners out of the pandemic. As perceived from the aforementioned examples of innovations, It is clear that transformation calls for dynamic aptitudes and agility to spot new chances, adjust, innovate current products, and collaborate with other ecosystem players to deliver more and new value as customer demands change.

4.3 The Post-Covid Era

About 50 million people died through the lethal Spanish flu epidemic of 1918-1920, which over 500 million people were infected with. If not for the technology that has played a key role in tackling it, the Covid-19 calamity might have been just as deadly, if not more so. No amount of praise is sufficient for the frontline personnel and those working in healthcare for making every effort to keep the planet safe despite limited resources, yet we also can't ignore the startups and technological innovations that helped these priceless individual initiatives. In addition to the entrepreneurs, a great deal of gratitude should go to the service providers and gig economy workers who risked their lives to make some of these technological solutions a reality.

The way investors and entrepreneurs used their problem-solving talents to help create solutions to make life simpler for those on the front lines is the best example of how startups played a part in fighting the pandemic in India.

4.3.1 The Aftermath of the Pandemic

In almost all sectors, the pandemic catastrophe caused catastrophic difficulties by negatively impacting supply chains and cash flows of all businesses. Some industries, like travel and hospitality, were more severely affected by the pandemic than others, like health and education technology, which experienced a huge boom. Limited financial flow and having to shut down operations because of the pandemic were two of the key concerns for fledgling startup enterprises.

Early 2020 studies stressed how the lack of information about the virus's transmission will have a big impact on businesses providing delivery, technology, networking, and related services.

But startups did what they were born to do. They innovated and took these challenges as opportunities to grow. Startups in the essential services sector adapted to the challenges posed by the pandemic through innovative and resourceful business models. The pandemic presented a challenge for the nation's startup ecosystem, but also created potential opportunities for certain industries.

4.3.2 How Startups changed with times and grew

The Covid pandemic put E-commerce on the vanguard of retail sector, with the segment of groceries delivery in the lead. As per a report by the Forrester Research, "ecommerce segment was anticipated to grow by 6%, amounting to \$35.5 Billion in 2020. In this, the grocery segment was expected to take the lead with about \$3 Billion in sales, representing an enormous 76% hike compared to \$1.7 Billion



recorded in 2019.”

This growth is praiseworthy and is projected to continue even after the pandemic ends as logistics, hospitality and solutions startups become increasingly popular every day in the country. But the progress would not have been imaginable if several of these startup players had not grabbed the opportunity to mend the broken supply chain during the time of crisis.

As everything went online within a short span of time, in both the B2B and B2C segments there were insufficient agents to accommodate the changes and maintain supply. Startups such as Ola, Rapido, and Domino's redirected their resources to guarantee that essential services could be accessed by all, including those confined in quarantine areas. Startups went beyond their core services and diversified as the market demanded. For example, Uber introduced UberMedics to offer transportation services to frontline healthcare professionals, while Ola provided 500 vehicles to the government of Karnataka for use in the pandemic. Startups in the hospitality sector, like Fab Hotels, OYO Hotels, Treebo, and Ginger Hotels, established isolation and testing facilities for individuals at-risk of having COVID-19 and for those who needed to self-isolate.

4.3.3 Not all Startups survived

On one hand startups took the pandemic as a growth opportunity, but on the other some of them were devoured by the virus too.

FICCI and IAN Survey Results

- According to a survey which was conducted by the “Federation of Indian Chambers of Commerce and Industry” (FICCI) jointly with the “Indian Angel Network” (IAN), with sample size of 250, Covid-19 had an adverse effect on 70% of Indian startups, 12% of which had to halt operations and wind-up business as a result of the virus outburst.
- Merely 22% of startups had enough cash on hand to cover their fixed cost obligations for the following three to six months of business-as-usual activity.
- 68% of the businesses had minimized their costs for operations and administration, implementing huge financial cuts to barely sustain.
- Almost 30% of companies reported that they would have had to let go of employees if the lockdown had lasted longer.
- Nearly 43% of startups implemented salary cuts ranging from 20-40% during April to June 2020. 10% of respondents said that deals had been cancelled, while 33% said that investors had delayed making investment decisions.

On the basis of agreements made before the epidemic, only 8% of businesses obtained finance. The decrease in investment had caused startups to pause their business progress and production, causing the loss of anticipated growth.

According to the survey, a startup rescue package that includes government contracts, tax breaks, and refunds is urgently needed. Instant monetary support such as soft-loans & grants should also be made available. Major layoffs could result from a lack of cash flow and working capital. According to the report, for Indian startups to continue operating, there must be a healthy environment and flow of financing.

The startup industry is a driving force behind the nation's development and a part of its effort to become "Aatmanirbhar." However, in the present times startups are spinning below immense burden due to lack of capital for working expenses. Both the industry stakeholders and the government need to collaborate and reach out to each other to row through this storm and come out even stronger than before.

4.4 Current Trends & Forecast

With the onset of 2023, the world has contested valiantly and is on the road to recover from the after-



effects of the pandemic. While speculations of new Covid waves still haunt the world, extensive vaccine innovations and booster dose campaigns by respective world governments are trying to ensure that the economic standstill as seen previously doesn't return at any costs.

4.4.1 Global Recession Speculations

According to the IMF, the global economy is improving as China loosens its zero-covid policies and the world shows unexpected resilience amidst high inflation, rising interest rates, and Russia's ongoing conflict with Ukraine.

The IMF now anticipates that the world economy will grow by 2.9% in 2023. Although it is lower than the expected 3.4% growth in 2022, this prognosis is still better than the 2.7% expansion for 2023 that the IMF forecasted in October 2022, when estimates cautioned that the world could easily tumble into recession. In good news for nascent startups and established businesses alike, the likelihood of a recession has decreased and central banks are doing better at containing inflation.

IMF has revised its projection for China's economic growth in 2023, now anticipating a 5.2% increase, an improvement from its previous estimate of 4.4%. The end of COVID-19 restrictions is expected to boost economic recovery in 2023, even though 2022 only saw 3% growth. India is expected to experience a slight decrease in growth to 6.1% in 2023, followed by a bounce back to 6.8% in 2024, and nonetheless with a strong overall outlook compared to its performance in 2022. It is estimated that the two Asian economic giants will contribute over 50% of global growth in 2023, with startups leading the path of growth.

4.4.2 Acquisitions, Investments and Layoffs

The economic disruption brought on by the COVID-19 epidemic has motivated Indian startups to change their business through asset sales, mergers & acquisitions. According to research by consultancy firm Bain & Co., Indian M&A activity is on the verge of reaching an all-time high, driven mostly by first-time buyers in the post-covid world. After witnessing a declining trend in M&A activity in 2019, the years following 2020 saw considerably better activity.

The largest acquisition of 2022 was the combination of Moj, a short-video platform owned by ShareChat and, and MX Taka TakTak, financed by Times Internet, worth around \$600 Mn. The second-largest purchase of the year was made by the listed food-tech firm Zomato when it paid a stunning \$568 million to buy the Tiger Global-backed Blinkit.

But on the flipside, investments and fundings for startups are experiencing a declining trend. For businesses in Delhi NCR, startup funding fell by 49% in 2022, where companies were only able to raise about \$5.2 billion, falling to almost 50% from \$10.2 billion in 2021. Percentage drop in funding for Mumbai startups was recorded at 42% while in Bengaluru it tanked 48% YoY in 2022. Despite being the strongest pillar of the Indian startup ecosystem, e-commerce startups across the country recorded a 63% fall in funding in 2022 and could raise only \$4.01 Billion as compared to \$10.7 Billion in 2021. Nation-wide, startup funding declined to \$25 Billion in 2022 from \$42 Billion in 2021. In January 2023, Tiger Global Management which has been a leading private market investor in India closed a total of zero deals for the first time in two years, further showing the declining trend of investments.

To add to the woes of already struggling startups, a massive wave of worldwide lay-offs, especially in the technology sector have multiplied problems. Within the first month of 2023, over 70 startups in India including market leaders like Byju's, Ola, MPL, Vedantu, OYO, Meesho, Udaan and more have laid off over 21,000 employees collectively. The pattern continues to be observed in top firms around the world, with more than 1 lakh people losing their jobs from companies like Amazon, Google, Microsoft, Meta, Salesforce and more, with no end in sight.



In short, the Indian startup ecosystem's surge in M&A activity has been offset by a decline in startup funding and a wave of lay-offs. Going forwards in the year, these issues need addressing head on to prevent further disruptions. These conflicting trends highlight the need for a concerted effort to support startups and secure the future of the startup ecosystem.

4.4.3 The Economic Survey (2022-23)

Released by the Government of India, through the Ministry of Finance, the Survey painted startups as the driving force in India's recovery from the pandemic. India has become one of the most vibrant locations for Startup ecosystems in the world by leveraging the power of innovation. Startups today are seen as the backbone of the new India because they inspire young people to create jobs rather than just look for them. Untapped prospects together with a favourable ecosystem provide India's startup industry a significant development potential.

Some of the major areas highlighted in the report include:

- a. Agriculture: Over 1,000 Agri-tech startups as of 2023, through ongoing innovations, are assisting farmers in bettering farming practices across the country like Climate-Smart Farming Practices including clean energy sources like solar for irrigation and power saving. Drones and artificial intelligence are being used in crop yield prediction models to monitor soil and crop health. In the millet value chains, more than 500 startups are active, and the Indian Institute of Millets Research has served as an incubator for 250 startups. Agri-tech companies have attracted more than Rs 6,600 crore from private equity investors over the preceding four years, which implies an annual growth rate of over 50%.
- b. Technology: The introduction of 5G was a significant development in India's telecom. Now being implemented across the nation are 5G use cases created by telecom Startups in the fields of education, health, worker safety, smart agriculture, etc. Startups and other e-commerce firms now have a wealth of opportunity to create ground-breaking products that improve the customer experience thanks to UPI. Global firms like Google, WhatsApp, Walmart, True Caller, Amazon, Uber, etc. are now able to offer UPI services thanks to open systems, along with encouraging new startups to innovate in the field as well. India is also trying to expand the emerging drone market. Drone Startups in the form of "Drone-as-a-Service" (DrAAS) are being fostered under the "Drone Shakti" mission. At this point, a green zone has been established across almost 90% of the airspace, allowing drones to fly up to 400 feet in the air, potentially revolutionizing the startups in logistics sector in the close future.
- c. Commerce: In terms of order volume and value, the years following COVID-19 have been the most successful for Indian e-commerce firms. According to the "Retail and E-commerce Trends" study published by business consultant firm "Wazir Advisors" & e-commerce enabling platform "Unicommerce", the total number of e-commerce orders increased by 69.4% YoY in FY22, mostly due to customers from tier-2 and tier-3 cities for the past two years. In addition, the emergence of e-commerce startups in rural India has resulted in a fantastic geographic expansion due to the growing use of smartphones and the internet as well as the growing buying power of these consumers. Furthermore, financial assistance provided during the pandemic boosted the penetration of e-commerce startups in rural areas, by boosting consumption since much of it could be done only online in the face of the epidemic's constraints. The e-commerce industry is focusing on local solutions to access rural areas by strengthening the network of rural distributors and merchants and using regional distribution centers as pick-up and drop-off



places. This enables logistics startups to service rural consumers. The government's e-commerce promotion programmes, including the Digital India initiative, UPI, Government e-Marketplace (GeM), etc., have made significant contributions to the recent growth of startups in this sector.

- d. Fostering Innovation: Government programmes that assist innovation include mentoring, incubation, funding, support, and industry-academia cooperation. By modernizing the intellectual property (IP) office, reducing the number of legal requirements, and streamlining the IP filing procedure for startups, women entrepreneurs, small enterprises, and others, the government has enhanced its IPR system. Over the period of 2016 to 2021, this led to a 46% increase in domestic patent filings, indicating India's shift to a knowledge-based economy. Under the Startup India Initiative, qualified businesses can take advantage of a number of tax benefits, lower compliance requirements, and fast-tracking for IPR. Entrepreneurship and innovation are promoted across the nation's startup ecosystem as a part of the umbrella campaigns of the "National Initiative for Developing and Harnessing Innovations" (NIDHI) and "Atal Innovation Mission" (AIM). The "Fund of Funds for Startups" (FFS) and the "Credit Guarantee Scheme for Startups" (CGSS) are providing support for initial credit investments and subsequent credit obligations.

While the government's external assistance has made it simpler than ever for entrepreneurship to flourish, Startups still confront a number of intrinsic difficulties. Be it the perpetually elusive finance, difficulties with generation of revenue, a scarcity of convenient admittance to supporting infrastructure, or navigating the tax compliances and industry regulating environments.

Additionally, it is being noted that numerous indigenous Indian businesses are moving abroad to places with favourable legal systems and taxation regimes. This procedure of involving transfer of entire ownership of an Indian company to a foreign organisation, together with a transfer of all intellectual property and data, is known as "flipping." Essentially this turns an Indian company into a fully owned subsidiary of an international corporation. This phenomenon depicts startups leaving their native country in search of quick profits in a volatile, unreliable geopolitical environment, which is harmful not just for their venture but also for the Indian economy. By working together, the government's regulatory agencies and other stakeholders can turn the situation around. Startups will remain and endure to be the ambassadors of the entrepreneurial vitality of this nation and this world if they employ solution-focused methods.

5. THE FUTURE AHEAD

5.1 Steps Taken

While stakeholders in the startup ecosystem banded together in times of distress to help and encourage one another in every manner imaginable, regulatory changes were also made to adapt to the new reality brought about by COVID-19. The aim of these reforms was to support business continuity and simplify the process of conducting business. Campaigns like "Invest India" and "Startup India" made significant efforts to comprehend and aid startups that were being growth-hindered by the epidemic.

A noteworthy factor in the continuous exertions to revive startups has been the "innovation challenges" conducted to invite companies that have COVID-19 tackling solutions. DPIIT and Startup India launched the "United Against COVID-19 Innovation Challenge" to support startups with solutions to the pandemic. The challenge received 776 applications and 80 startups were selected for funding, assistance with regulations, manufacturing, and procurement. These startups were also given the opportunity to pitch their products to investors, secure direct orders, and overcome market accessibility challenges through dedicated demonstrations.



These dedicated efforts have shown results just a few months after being expertly and quickly put together. More than half of technology startups have reported that their revenues have returned to levels the same as before the pandemic. As per NASSCOM, “the education, healthcare and other digital technology startups have begun showing unbelievable growth. This resurrection was also reflected in the investments with the July-September 2020 quarter seeing \$14.90 Billion investment, up from \$4.94 Billion in the same quarter in 2019”.

5.2 What Lies Ahead

According to reports, India would have been able to overcome the negative effects of Covid-19 and reach its target of having 100 unicorn firms by 2025 if all stakeholders in the startup ecosystem work together. This target has been achieved two years earlier, with the nation being a proud home to 108 unicorn startups in 2023. This becomes a testimony of the startup ecosystem's concerted efforts to ensure not just India's economic growth, but also a innovation-based global growth trajectory.

The Indian startup network has grown by leaps and bounds in the last ten years. From a nascent ecosystem with only a bunch of tech-focused undertakings to 29,000 startups in 2014, the figure has grown exponentially. With total investment of funds hitting the roof to touch \$63 Billion between 2014 and 2023, India has witnessed the entry of 108 startups in the unicorn club having a joint valuation of \$345+ Billion, having raised over \$94 Billion in funding. After a stable growth till 2020 and in 2021 too, the Indian startup ecosystem is predicted to continue to be steady in terms of funding and investor interest.

6. Conclusion

The epidemic era was destructive, yet undoubtedly fascinating for the nation's whole startup sector. The unexpected contagion overwhelmed most sectors and the startup ecosystem was no exclusion. On one hand while many startups reached valuations of more than a billion dollars and became unicorns, the other hand saw this time forcing a lot of startups to rethink and reimagine the way they did business.

The sector is still in recovery, overcoming the impacts left behind by the pandemic both internally and externally. At a time when startup firms are in dire need of government support, the DPIIT put a number of limitations on startup funding (vide a Press Note dated April 17, 2020), by disincentivising a significant amount of financial investments from international, and especially Chinese companies like Tencent Holdings, Alibaba, Fosun, etc. Historically, to finance and sustain development prospects, Indian startups have relied largely on this foreign direct investment (FDI). These kinds of restrictions would be especially important in the post-pandemic period, when open and free markets would be important for maintaining a constant flow of investment and job development. Although the new regulatory measures may momentarily help startups manage their business continuity plans, the sector still requires significant financial support, if not from FDI then from the government.

Still, there are several positives in the Indian market to give us hope about the future of startups. The synergistic effect of progressive government policies, corporate capital support, expert academic guidance, and the ingenuity of Indian entrepreneurs can lead to the unlocking of the full potential of the Indian startup industry. Once the medium and long-term effects of the pandemic subside, there is no looking back for startups in India. Although the country has many specific challenges, its greatest assets are its intelligence and resiliency. By utilizing these, it can find creative solutions to a wide range of persisting and upcoming challenges. Startups offer a remarkable environment for developing talent and maximizing the scope and potential of cutting-edge technologies and thus have the potential to dramatically alter India's economy if they accomplish this. It's high time for all stakeholders involved to collectively collaborate together as one unit to make this vision a reality.



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